

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 RSC-01

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-02 H-02 PA-02 PRS-01 USIA-15 AGR-10 FEAE-00

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FM AMEMBASSY PARIS

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INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL BORDEAUX

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UNCLAS SECTION 01 OF 03 PARIS 03448

PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EALR, EFIN, EGEN' FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 02151, JANUARY 24, 1975

1. SUMMARY. FINANCE MINISTER FOURCADE HAS INDICATED
CHANGE IN GOF ECONOMIC TACK - WITH ATTENTION GIVEN MORE
TO "SELECTIVE SUPPORT" FOR ECONOMY THAN TO ANTI-INFLATION
PROGRAM PURSUED BY GOF SINCE LAST JUNE - ALTHOUGH SWITCH
AS YET MORE RHETORICAL THAN REAL. PRICE FIGURES FOR
DECEMBER BRING INFLATION OVER COURSE OF 1974 TO 15 PER-
CENT - BELOW 17 PERCENT ANTICIPATED LAST SUMMER, BUT
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STILL WORST ANNUAL RECORD FOR FRANCE SINCE 1951. END

SUMMARY.

2. FOURCADE CALLS END TO DEFLATIONARY POLICIES -

FRANCE'S ECONOMIC PRIORITIES, ACCORDING TO FINANCE MINISTER FOURCADE, ARE SHIFTING AWAY FROM COOLING OFF ECONOMY TOWARD POLICY OF SUPPORT FOR BUSINESS ACTIVITY. IN SPEECH FEBRUARY 1 TO MEMBERS OF PRESIDENT GISCARD D'ESTAING'S INDEPENDENT REPUBLICAN PARTY, FOURCADE DID NOT ELABORATE ON SPECIFIC CHANGES TO BE MADE IN GOF ECONOMIC POLICY; HOWEVER, HIS STATEMENT THAT AFTER 8 MONTHS OF DEFLATION "WE HAVE REACHED POINT WHERE COOLING-OFF PERIOD MUST GIVE WAY" CONTRASTED SHARPLY WITH PRIME MINISTER CHIRAC'S STATEMENT 3 WEEKS PREVIOUSLY THAT TIME NOT RIPE FOR REFLATION.

FOURCADE RECALLED RECENT GOF EFFORTS OF "SELECTIVE SUPPORT" FOR AUTOMOBILE AND BUILDING SECTORS' AND INDICATED MAIN CONCERNS OF GOF ARE NOW UNEMPLOYMENT AND MOUNTING PROBLEMS OF FARM SECTOR.

DURING PREVIOUS WEEK, FOURCADE ALSO SAID HE WAS PREPARED TO ACCEPT BUDGET DEFICIT IF NECESSARY TO REALIZE GOF OBJECTIVE OF 4 PERCENT REAL GROWTH THIS YEAR; HE ADDED THAT DEFICIT INCURRED THROUGH REDUCTION IN TAXES PREFERABLE TO INCREASE IN PUBLIC SPENDING.

IN RELATED DEVELOPMENT, FOURCADE CONFIRMED THAT TEMPORARY TIGHTENING OF DEPRECIATION RULES WOULD BE ALLOWED TO LAPSE ON SCHEDULE NEXT JULY 1. FOURCADE IS DESCRIBED AS BEING "LESS HOSTILE" THAN HERETOFORE REGARDING PROPOSALS TO ALLOW "MORE REALISTIC" VALUATION OF COMPANIES' ASSET VALUES FOR TAX PURPOSES.

3. INFLATION HITS 15 PERCENT IN 1974 -

FRANCE'S RATE OF PRICE INFLATION EASED AGAIN IN DECEMBER WITH MONTHLY INCREASE OF 0.8 PERCENT IN INSEE (NATIONAL STATISTICS INSTITUTE) CONSUMER PRICE INDEX; OVER COURSE OF 1974, INCREASE IN RETAIL PRICES UNCLASSIFIED

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AMOUNTED TO 15.2 PERCENT. DECEMBER INDEX SET AT 144.3 (BASE 1970 AS 100), UP FROM 143.1 IN NOVEMBER AND 141.8 IN OCTOBER (REVISED).

PRICE INCREASES IN BOTH NOVEMBER AND DECEMBER SATISFIED GOF OBJECTIVE OF LESS THAN ONE PERCENT MONTHLY INFLATION BY YEAR'S END. HOWEVER, UPWARD PRESSURE ON PRICES - DUE TO INCREASED RENTS, PUBLIC-

UTILITY, MEDICAL, INSURANCE AND OTHER CHARGES - IS
CERTAIN TO BE REFLECTED IN FIGURES FOR EARLY MONTHS OF
1975. AND, DESPITE ELEVENTH-HOUR MELLOWING, INFLATION
RECORD IN 1974 NEVERTHELESS ONE OF WORST IN POSTWAR
FRANCE.

RETAIL PRICE INFLATION
(PERCENT INCREASES IN CONSUMER PRICE
INDICES; END-OF-QUARTER)

74-I 74-II 74-III 74-IV YEAR

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CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

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MANUFACTURES 6.1 4.3 3.8 3.1 18.6

FOOD 3.0 3.6 2.1 2.9 12.1

SERVICES 2.8 3.7 3.2 3.1 13.4

OVERALL 4.2 4.0 3.2 3.0 15.2

IN 1974 INFLATION SWEEPSTAKES, AWARD FOR WORST PERFORMANCE GOES TO ENERGY-FUELS CATEGORY (UP 34 PERCENT); BEST PERFORMANCE: EGGS (DOWN 2.4 PERCENT).

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4. OUTPUT DROPS FURTHER IN NOVEMBER -

FRENCH INDUSTRIAL OUTPUT SLOWED FURTHER IN NOVEMBER TO LEVEL LAST RECORDED IN DECEMBER 1973. OVERALL INSEE MONTHLY INDEX OF INDUSTRIAL PRODUCTION (SEASONALLY ADJUSTED, BASE 1970 AS 100) DROPPED TO 119 IN NOVEMBER FROM 122 IN OCTOBER AND 121 IN SEPTEMBER (REVISED). NOVEMBER INDEX WAS 3.2 PERCENT BELOW THAT FOR NOVEMBER 1973.

DESPITE ADJUSTMENT FOR SEASONAL VARIATIONS, INDEX OF INDUSTRIAL PRODUCTION FREQUENTLY EXHIBITS MONTH-TO-MONTH FLUCTUATIONS. USING THREE-MONTH MOVING AVERAGES, FOLLOWING TABLE DAMPENS SUCH CHANGES WHILE SHOWING PRONOUNCED DROP IN INDUSTRIAL OUTPUT DURING AUTUMN 1974:

FRENCH INDUSTRIAL PRODUCTION
(SEASONALLY ADJUSTED, 3-MONTH MOVING AVERAGES;
BASE 1970 AS 100)

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV
122	123	124	124	124	125	126	127	126	124	121

5. FF 9 BILLION CURRENT DEFICIT IN THIRD QUARTER 1974 -

FRANCE'S BALANCE OF PAYMENTS ON CURRENT ACCOUNT REGISTERED 8.9 BILLION FRANC DEFICIT IN THIRD QUARTER 1974, BRINGING TOTAL CURRENT DEFICIT TO FF 26.1 BILLION FOR FIRST NINE MONTHS OF YEAR, ACCORDING TO PRELIMINARY FIGURES RELEASED FEBRUARY 3 BY FINANCE MINISTRY. MARKED IMPROVEMENT IN TRADE ACCOUNT (IN DEFICIT BY FF 4.6 BILLION IN THIRD QUARTER, COMPARED TO FF 17.2 BILLION FOR FIRST HALF) SERVED TO COMPENSATE FOR

DETERIORATION ON SERVICES (LARGELY SEASONALMOVING
FROM BALANCE IN FIRST HALF TO FF 0.9 BILLION DEFICIT
IN THIRD QUARTER) AND TRANSFERS.

FINANCING OF CURRENT DEFICIT MORE THAN COVERED IN
THIRD QUARTER BY CAPITAL INFLOWS (PLUS 6.7 BILLION
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FRANCS) PLUS INCREASED NET SHORT-TERM BORROWING ABROAD
BY BANKING SECTOR (4.1 BILLION FRANCS). LONG-TERM
CAPITAL ACCOUNT SHOWED FF 3.3 BILLION SURPLUS IN THIRD
QUARTER (FF 6.9 BILLION IN FIRST HALF), WHILE NON-BANK
SHORT-TERM CAPITAL ACCOUNT PLUS UNRECORDED TRANSACTIONS
EASED DOWN FROM FF 11.5 BILLION SURPLUS IN FIRST HALF
TO FF 3.4 BILLION SURPLUS IN THIRD QUARTER. COMPLETE
DATA ON BALANCE OF PAYMENTS BY AIRGRAM ONCE DEFINITIVE
THIRD-QUARTER FIGURES RELEASED.

6. BUSINESSMEN STILL PESSIMISTIC ON NEAR-TERM
OUTLOOK -

RESPONDENTS TO INSEE'S JANUARY SURVEY OF BUSINESS
OPINION AND INTENTIONS REMAINED PESSIMISTIC ABOUT
IMPROVEMENT IN BUSINESS ACTIVITY OVER NEAR TERM, THOUGH
OVERALL OUTLOOK SLIGHTLY IMPROVED SINCE EARLY-DECEMBER
SURVEY. THE NUMBER OF INDUSTRIALISTS PLANNING PRODUC-
TION CUTBACKS DECLINED SLIGHTLY (FROM 41 PERCENT IN
DECEMBER TO 34 PERCENT IN JANUARY). WITH INVENTORIES OF
FINISHED GOODS HAVING STABILIZED AT VERY HIGH LEVELS,
RESPONDENTS BELIEVED OUTPUT HAD BEEN SUFFICIENTLY SCALED
DOWN TO MATCH LEVEL OF DEMAND AND SAW AN END TO GENERAL
DECLINE IN BUSINESS ONCE STOCKS ARE RE-ABSORBED.

AMONG SECTORS, PRODUCTION OF CAPITAL-EQUIPMENT
GOODS ACTUALLY DECLINED AT YEAR'S END FOLLOWING SLOW-
DOWN IN GROWTH DURING SECOND HALF; MACHINERY AND PRECI-
SION INSTRUMENTS MOST SERIOUSLY AFFECTED. UNFILLED
ORDERS CONTINUED DECLINE AND INVENTORIES REMAINED AT

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HIGH LEVELS. OUTPUT IS EXPECTED TO DROP FURTHER IN
COMING MONTHS. INTERMEDIATE GOODS SECTOR SIMILARLY
GLOOMY, WITH SWOLLEN INVENTORIES AND WITH UNFILLED
ORDERS AT LOWEST LEVEL SINCE SURVEY BEGAN IN 1962.
DECLINE IN OUTPUT MOST PRONOUNCED IN METALS AND
CONSTRUCTION MATERIALS.

CONSUMER-GOODS SECTOR REMAINS MOST HARD-HIT BY
ECONOMIC SLOWDOWN. DECLINE IN OUTPUT, WHICH HAS
PLAGUED AUTOMOBILE AND TEXTILE INDUSTRIES FOR MONTHS,
SPREAD WITH EQUAL SEVERITY AT YEAR'S END TO HOUSEHOLD-
EQUIPMENT BRANCH. UNFILLED ORDERS CONTINUED TO
FALL WHILE INVENTORIES CLIMBED ANEW. OUTLOOK FOR
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COMING MONTHS IS FOR CONTINUED REDUCTION IN OUTPUT -
BUT LESS SO THAN IN RECENT PAST.

7. OTHER REPORTS SUBMITTED DURING THE PERIOD -

TELEGRAMS

02149 PRESIDENT GISCARD'S JANUARY
"FIRESIDE CHAT" STRESSES
ECONOMIC QUESTIONS JANUARY 24, 1975

02289 ECONOMICS MINISTER ON DOLLAR
AND INTERNATIONAL MONETARY
OUTLOOK JANUARY 28, 1975

02720 ECONOMIC FORECASTING -
INDUSTRIAL PRODUCTION JANUARY 31, 1975

03057 "LE MONDE" INTERVIEW WITH
FINANCE MINISTERS FOURCADE
AND APEL FEBRUARY 4, 1975

03136 FRENCH DEBT STATISTICS FEBRUARY 5, 1975

AIRGRAMS

A-42 TRADE WITH COMMUNIST AREAS JANUARY 23, 1975

A-47 VALUE OF TRADE IN MANU-
FACTURES JANUARY 27, 1975

A-48 FRENCH FOREIGN EXCHANGE
HOLDINGS JANUARY 27, 1975

A-49 FRENCH FOREIGN EXCHANGE
HOLDINGS JANUARY 27, 1975

A-55 TRADE WITH COMMUNIST AREAS JANUARY 29, 1975

A-59 FRENCH FOREIGN EXCHANGE
HOLDINGS JANUARY 31, 1975

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A-64 FIRST HALF 1974 FRENCH
NATIONAL ACCOUNTS FEBRUARY 3, 1975
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